

# PETRODORADO ENERGY LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Petrodorado Energy Ltd. ("Petrodorado" or the "Company") for the three and nine months ended September 30, 2019, as compared to the three and nine months ended September 30, 2018, as well as information and expectations concerning the Company's outlook based on currently available information.

This MD&A should be read in conjunction with Petrodorado's interim condensed financial statements for the three and nine months ended September 30, 2019 as well as the audited annual consolidated financial statements for the year ended December 31, 2018 (collectively, the "Financial Statements") prepared in accordance with IFRS (as defined below), together with the accompanying notes.

This MD&A contains forward-looking information about our current expectations, estimates, projections and assumptions. Additional information on the Company, its financial statements, this MD&A and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

***All dollar values are expressed in US dollars, unless otherwise indicated, and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").***

This MD&A is prepared as of November 15, 2019.

### NON-IFRS MEASURES

Funds used in operations include all cash used in operating activities and are calculated before the change in non-cash working capital. A reconciliation of cash used in operating activities to funds used in operations for the three and nine months ended September 30, 2019 and 2018, are as follows:

<b>Funds used in operations (\$)</b>	<b>Q3 2019</b>	<b>Q3 2018</b>	<b>YTD 2019</b>	<b>YTD 2018</b>
Cash used in operating activities	(19,280)	(17,155)	(122,152)	(371,994)
Change in non-cash working capital	(17,105)	12,547	8,967	42,759
<b>Funds used in operations</b>	<b>(36,385)</b>	<b>(4,608)</b>	<b>(113,185)</b>	<b>(329,235)</b>

The non-IFRS measure referred to above does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures used by other companies. Management uses this non-IFRS measurement for its own performance measures and to provide its shareholders and investors with a measurement of the Company's efficiency and of its ability to fund a portion of its future growth expenditures.

### BUSINESS PROFILE AND STRATEGY

Petrodorado's head office is located in Calgary, Alberta, Canada, and the Company's shares are traded on the TSX Venture Exchange ("TSXV") under the trading symbol "PDQ". The Company, prior to 2015, was primarily engaged in petroleum and natural gas exploration and development activities in Colombia. The Company underwent a strategic reassessment which resulted in the disposal of or withdrawal from all exploration blocks in Colombia in which the Company had a direct participating interest. These transactions have enabled the Company to eliminate all

previously existing operational obligations and future exploration and development commitments that were well in excess of capital available to the Company and that would have required additional financial resources.

Even though these events have improved the financial condition of the Company, the lack of cash inflow from operations may mean that any future strategic opportunities for the Company may require additional financing to execute. The Board of Directors and management have continued to review all potential transactions available to the Company with the mission to identify viable and lucrative opportunities that may provide the best future for the Company and the shareholders with the goal to maximize shareholder value.

In February 2018, the Company was in receipt of a letter from the Canada Revenue Agency (the "CRA") seeking further information regarding various historical transactions undertaken by Petrodorado. The Company collaborated with the CRA in order to provide them all of the information that they requested in order to support Petrodorado's tax filings. In November 2019, the Company received a letter from the CRA confirming that they have completed their review of the Company's historic tax filings and have concluded that no amendments to said tax filings was required.

In May 2019, the Company received notice from the TSXV regarding Petrodorado's stock listing. Currently, the Company is listed as a Tier 2 listed issuer on the TSXV. However, after a review by the TSXV of the Company's current operations and financial position, in accordance with TSXV's continued listing requirements, the Company was being given conditional notice for transfer of Petrodorado's listing to the NEX, a separate stock exchange board of the TSXV for listed companies that do not currently meet TSXV listing requirement for the venture exchange board. Initially, the TSXV provided a deadline of August 12, 2019 by which the Company would need to provide satisfactory evidence of meeting Tier 2 listing requirements, which would involve providing evidence of a proposed business transaction that would change the Company's current operations and financial position sufficiently to meet said listing requirements. In November 2019, the Company received conditional approval from the TSXV of the proposed business transaction with ROK Resources Inc. (see below) that will satisfy Tier 2 listing requirements in order to maintain the Company's listing with the TSXV.

## **ROK RESOURCES INC. ACQUISITION**

Effective October 2019, the Company entered into a share exchange agreement (the "Share Exchange Agreement") with the shareholders of ROK Resources Inc. ("ROK"), a private Saskatchewan oil and gas company, pursuant to which Petrodorado will acquire all of the issued and outstanding shares of ROK. Upon completion of this transaction, the current business of ROK will become the primary business of Petrodorado (the "Transaction"). ROK holds interest in certain undeveloped land located in Saskatchewan on which it wishes to conduct petroleum and natural gas exploratory work.

Pursuant to the Share Exchange Agreement, ROK's shareholders will be issued an aggregate of 20,000,000 common shares of Petrodorado. It is estimated that former ROK shareholders will hold approximately 46% of the current issued and outstanding common shares on a non-diluted basis or approximately 38% on a fully diluted basis (assuming conversion of Petrodorado warrants issued in its most recent financing with a strike price of C\$0.15 and conversion of all outstanding Petrodorado options).

Pursuant to the Share Exchange Agreement, at the closing date of the Transaction, the board of directors of the Company is to be comprised of the existing three directors of Petrodorado and a nominee of ROK. As well, the ROK nominee will become the Chief Executive Officer of Petrodorado. Concurrently with the completion of the Transaction, Petrodorado is expecting to change its name to "ROK Resources Inc." or such other name as the directors may determine in their discretion.

The completion of the Transaction is subject to a number of conditions precedent including, but not limited to: (i) the approval of the Transaction by the Exchange including the listing of the Petrodorado common shares to be issued as consideration to the ROK shareholders pursuant to the Share Exchange Agreement; (ii) the absence of any material change or change in a material fact which might reasonably be expected to have a material adverse effect

on the financial or operation conditions or the assets of either of Petrodorado or ROK; (iii) completion of satisfactory due diligence by each party on the other; and (iv) certain other conditions customary in a transaction of this nature.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's approach to managing liquidity is to ensure a balance between expenditure requirements and cash used in by operations and working capital. As at September 30, 2019, the Company had working capital of \$0.9 million (\$1.0 million at December 31, 2018) comprised mostly of cash and cash equivalents. Changes in working capital are primarily due to general and administrative costs of the Company incurred over time.

As the Company has no assets capable of generating cash flow, it will continue to exhaust its remaining financial resources to fund existing administrative budgets and potential strategic transactions for the foreseeable future. These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern as it will be contingent upon the Company's ability to successfully identify and procure necessary capital, which may be by way of strategic transactions to obtain financing and/or generate profitable operations that are beneficial to the Company and its shareholders. Management continues to make deliberate efforts to conserve Company finances while assessing future opportunities. Such efforts have included the reduction of compensation to management and directors as well as the reduction of contracted professional services to those only deemed necessary in the maintenance of the Company.

Other than accounts payable and accrued liabilities, the Corporation does not otherwise have any outstanding commitments and has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants. Based on current information, the Company anticipates that its working capital is sufficient to meet its expected ongoing obligation for the coming year.

## DISCUSSION OF OPERATING RESULTS

### General and Administrative Expenses

General and administrative expenses ("G&A") for the nine months ended September 30, 2019 were \$113,384 (\$74,967 for the nine months September 30, 2018). G&A has reduced in recent years primarily due to an overall reduction in Company operations and overhead based on management's effort to conserve the Company's working capital and to prepare the Company for new opportunities in the future.

<b>General and Administrative Expenses (\$)</b>	<b>Q3 2019</b>	<b>Q3 2018</b>	<b>YTD 2019</b>	<b>YTD 2018</b>
Professional Fees	359	908	8,680	42,342
Wages & Salaries	25,305	-	75,414	-
Fees, Rent, Investor Relations and Other	4,560	4,207	29,290	32,625
<b>Total</b>	<b>30,224</b>	<b>5,115</b>	<b>113,384</b>	<b>74,967</b>

### Business Development Expenses

For the nine months ended September 30, 2019, business development expenses consisted of those costs incurred in the identification and review of potential business transactions and acquisitions opportunities available to the Company. For the nine months ended September 30, 2018, costs incurred in relation to the terminated amalgamation transaction with Western Atlas Resources ("WAR") were recognized as business development expenses. These expenses included, among other costs, the aforementioned C\$250,000 payment to WAR upon termination of the amalgamation agreement.

## **Foreign Exchange Loss**

The Company generated a foreign exchange loss of \$3,266 and a foreign exchange gain of \$1,975 for the nine months end September 30, 2019 and 2018, respectively. Foreign exchange losses are due to a decrease in the value of the US dollar when compared to the Canadian within a specific period. Conversely, foreign exchange gains are due to an increase in the value of the US dollar when compared to the Canadian dollar within a specific period.

## **Stock-Based Compensation**

For the nine months ended September 30, 2019, the Company recorded stock-based compensation expense of \$12,928 (\$22,121 for the nine months ended September 30, 2018). New options were granted in Q3 2018, with the vesting of these options accounting for the majority of stock-based compensation expense in each respective period.

## **Funds used in Operations**

For the nine months ended September 30, 2019, the Company used funds in operations of \$113,185 (funds used in operations of \$329,235 for the comparative period to September 30, 2018). The decrease in funds used in operations relates primarily to business development expenses incurred in 2018.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The carrying values of the Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, approximate their fair values due to the short-term maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## **SHAREHOLDERS' EQUITY**

### **Common shares**

At September 30, 2019, the Company was authorized to issue an unlimited number of Class B Shares, with no par value, with holders of Class B Shares entitled to two votes per share and to dividends, if declared. As of September 30, 2019, and December 31, 2018 and 2017, the Company 23,274,268 Class B Shares outstanding for a share capital balance of \$87,920,755.

### **Warrants**

Pursuant to the non-brokered private placement of units in June 2017, the Company issued 6,666,667 share purchase warrants. The warrants are exercisable immediately at a price of C\$0.15 per share until June 2022. A fair value of \$30,259, net of issue costs, was recognized for the issuance of the share purchase warrants.

### **Stock options**

The Company has adopted a formal rolling stock option plan whereby options can be granted from time to time to directors, officers, employees and consultants at the discretion of the Board of Directors. The number of options that can be granted is limited to 10% of the total shares issued and outstanding. A summary of the changes in stock options is presented below:

	Stock options	Weighted average exercise price (C\$)
Balance, December 31, 2017	668,000	0.65
Options issued	1,500,000	0.10
Balance, December 31, 2018	2,168,000	0.27
Expired options	(108,000)	3.50
<b>Balance, September 30, 2019</b>	<b>2,060,000</b>	<b>0.10</b>
<b>Exercisable, September 30, 2019</b>	<b>1,560,000</b>	<b>0.10</b>

The following summarizes information about stock options outstanding as at September 30, 2019:

Exercise prices (C\$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
0.10	2,060,000	3.34	1,560,000

No stock options were issued during the nine months ended September 30, 2019. The value of the stock options vesting in the nine months ended September 30, 2019 equated to \$12,928 (September 30, 2018 - \$22,121) in stock-based compensation expense, which was recorded to contributed surplus.

As of the date of this MD&A, the Company maintained balances of 23,274,268 Class B Shares, 6,666,667 warrants, and 2,060,000 stock options.

## USE OF ESTIMATES AND JUDGMENTS

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

### Critical judgments in applying accounting policies

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

#### *i) Income taxes*

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities, where applicable.

**i) Business combinations**

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed as part of the acquisition transaction.

**ii) Share-based payments**

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

**iii) Tax provisions**

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

**New standards adopted on January 1, 2019**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning on or after January 1, 2019 or later periods.

**IFRS 16: Leases**

On January 1, 2019, the Company adopted IFRS 16 “Leases” to replace the existing guidance of IAS 17 “Leases”. The standard establishes principles and disclosures related to the amount, timing and uncertainty of cash flows arising from a lease. Given that the Company has no leases, no adjustments were required from the adoption of this standard.

**PRINCIPAL BUSINESS RISKS**

The Company’s business and results of operations are subject to a number of risks and uncertainties which include, but are not limited to, the following:

**Going Concern**

The Company has included a “going concern” qualification in the notes to the Company’s interim condensed financial statements for the nine months ended September 30, 2019 (see “Going Concern” under Note 2). Current cash resources of the Company may not be sufficient to continue its business activities. In the event that the Company is unable to raise additional capital and/or attain sufficient revenues from its operations, as to which in each case there can be no assurance, the Company may not be able to continue its operations.

**Key Personnel**

The Company’s success depends in large part on the ability of its executive management team to deal effectively with complex risks and relationships and execute the Company’s business plan. The members of the management team contribute to the Company’s ability to obtain, generate and manage opportunities. There can be no assurance that the Company’s present key personnel and directors will remain with the Company. The departure of any such key person or director may materially affect the Company’s business, financial condition, results of operations, and the value of the Class B Shares.

## **Public Market Risk**

There can be no assurance that an active trading market in the Company's securities will be sustained. The market price for the Company's securities could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of the Company's peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the securities of the Company. The stock market has from time to time experienced extreme price and volume fluctuations, which may be unrelated to the operating performance of particular companies.

## **Dividends**

To date, the Company has not paid regular dividends on its outstanding securities and does not anticipate paying any dividends in the foreseeable future. There are no restrictions in the Company's articles or elsewhere which would prevent the Company from paying dividends. It is not contemplated that any dividends will be paid on the Class B Shares in the immediate future as it is anticipated that all available funds will be invested to finance the growth of the Company's business. The directors of the Company will determine if, and when, dividends will be declared and paid in the future from funds properly applicable to the payment of dividends based on the Company's earnings, financial position and other conditions at the relevant time. All of the Class B Shares are entitled to an equal share in any dividends declared and paid.

## **Failure to Maintain Listing of the Class B Shares**

The Class B Shares are currently listed for trading on the facilities of the TSXV. The failure of the Company to meet the applicable listing or other requirements of the TSXV in the future may result in the Class B Shares ceasing to be listed for trading on the TSXV or transfer of the listing to another stock exchange, which would have a material adverse effect on the value of the Class B Shares. There can be no assurance that the Class B Shares will continue to be listed for trading on the TSXV.

## **Structure of the Company**

From time to time, the Company may take steps to organize its affairs in a manner that minimizes taxes and other expenses payable with respect to the operation of the Company and its subsidiaries. If the manner in which the Company structures its affairs is successfully challenged by a taxation or other authority, the Company and the holders of Class B Shares may be adversely affected.

## **Management's Report on Internal Control over Financial Reporting**

In connection with National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company are required to file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52- 109.

## **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

This MD&A offers an assessment of the Company's future plans and operations as of the date hereof and may contain forward-looking information. All statements other than statements of historical fact are forward-looking statements. Such information is generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "may", "plan", "will", "project", "should", "believe" and similar expressions. Statements relating to "reserves" or "resources" are also forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and

that the resources and reserves described can be profitably produced in the future. All such statements involve known and unknown risks, uncertainties and assumptions.

Management believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking information included in this MD&A should not be unduly relied upon as the plans, assumptions, intentions or expectations upon which it is based may not occur. Actual results or events may vary from the forward-looking information.

In particular, this MD&A may contain forward-looking information pertaining to the following:

- the potential of the Company's assets,
- the Company's growth strategy and opportunities,
- expectations regarding the ability to raise equity and debt capital on acceptable terms, including the ability to negotiate and complete any agreements contemplated,
- the timing for receipt of regulatory approvals, and
- treatment of the Company under governmental regulatory regimes and tax laws.

The purpose of providing any financial outlook in this MD&A is to illustrate how the business of the Company might develop without the benefit of specific historical financial information. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking information herein is based on certain assumptions and analysis by the management of the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors that it believes are appropriate and reasonable under the circumstances. The forward-looking information herein is based on a number of assumptions, including but not limited to:

- the availability on acceptable terms of funds for capital expenditures,
- the availability in a cost-efficient manner of equipment and qualified personnel when required,
- the stability of the regulatory framework governing taxes and environmental matters any jurisdiction in which the Company may conduct its business in the future, and
- the impact of increasing competition on the Company.

The actual results, performance and achievements of the Company could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties set forth elsewhere in the MD&A and the following risks and uncertainties:

- global financial conditions,
- general economic, market and business conditions,
- volatility in market prices, the stock market, foreign exchange and interest rates,
- the failure by counterparties to make payments or perform their operational or other obligations to the Company in compliance with the terms of contractual arrangements between the Company and such counterparties,
- risks related to the timing of completion of the Company's projects and plans,
- competition for, among other things, capital, acquisitions of resources, and skilled personnel,
- incorrect assessments of the value of acquisitions,
- claims made in respect of the Company's properties or assets,
- environmental risks and hazards,
- the inaccuracy of third parties' reviews, reports and projections,
- rising costs of labour and equipment,
- the failure to engage or retain key personnel,
- changes in income tax laws or changes in tax laws and incentive programs, and
- other factors discussed under "Principal Business Risks" in this MD&A.

Readers are cautioned that the foregoing lists of assumptions, risks and uncertainties are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The forward-looking information speaks only as of the date of this MD&A, and the Company does not undertake any obligation to publicly update or revise any forward-looking information except as required by applicable securities laws.

## SELECTED QUARTERLY INFORMATION

The following table sets out selected unaudited quarterly financial information of Petrodorado and is derived from unaudited quarterly financial data prepared by management in accordance with IFRS.

<b>Quarterly Results (\$)</b>	<b>Q3 2019</b>	<b>Q2 2019</b>	<b>Q1 2019</b>	<b>Q4 2018</b>
Total revenue	3,394	3,393	3,510	3,510
Net loss	(39,065)	(44,020)	(44,154)	(40,606)
Comprehensive loss	(50,685)	(23,487)	(22,428)	(97,469)
Net loss per share (basic & diluted)	(0.00)	(0.00)	(0.00)	(0.00)

<b>Quarterly Results (\$)</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q1 2018</b>	<b>Q4 2017</b>
Total revenue	3,123	3,843	3,943	3,858
Net loss	(26,526)	(58,025)	(264,720)	(40,546)
Comprehensive loss	(8,286)	(81,861)	(304,618)	(146,339)
Net loss per share (basic & diluted)	(0.00)	(0.00)	(0.01)	(0.00)

The net loss in each of the quarters is the result of general and administrative expenses, business development expenses, stock-based compensation expense, and foreign exchange losses or gains incurred in each respective quarter.

## OUTLOOK

Management continues to evaluate the Company's corporate strategy and to identify and review potential opportunities for the Company's future. Management's primary objective in 2019 is to move the Company forward towards an established future that will result in increased value for shareholders.